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91406



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## Level 3 Accounting, 2015

### 91406 Demonstrate understanding of company financial statement preparation

2.00 p.m. Monday 30 November 2015  
Credits: Five

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of company financial statement preparation.	Demonstrate in-depth understanding of company financial statement preparation.	Demonstrate comprehensive understanding of company financial statement preparation.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

**You should attempt ALL parts of all questions in this booklet.**

Pull out Resource Booklet 91406R from the centre of this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–12 in the correct order and that none of these pages is blank.

**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

Excellence

TOTAL

23

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## QUESTION ONE

- (a) *Fashnz Limited*, a supplier of designer clothing, has the following equity account balances on 1 April 2014.

Contributed equity (400 000 fully paid shares)	1 280 000
Retained earnings	230 000

Prepare the General Journal entry to record the payment of the 2014 final dividend of 12 cents per share on 15 May 2014 by *Fashnz Limited*.

***Fashnz Limited***  
**General Journal**

15/5/2014	Final Dividend 2014	48000	
	Bank		48000
	Payment of 2014 final dividend		

- (b) The General Journal entry below shows the repurchase of shares by *Fashnz Limited* at a fair value of \$5 per share.

***Fashnz Limited***  
**General Journal**

19/8/2014	Contributed equity	32 000	
	Retained earnings	18 000	
	Bank		50 000

Explain the effects of this transaction on both the contributed equity and retained earnings ledger accounts. In your answer, explain how the figures were calculated, including the number of shares repurchased by *Fashnz Limited*.

The number of shares that were repurchased by *Fashnz Limited* was 10 000 shares ( $\$50\,000 \div \$5 = 10\,000$ ). The original fair value of the shares was \$3.20 ( $\$1\,280\,000 \div 400\,000$  shares). As the repurchase price is greater than the original fair value of shares by \$1.80, there is a reduction in retained earnings of \$18 000 and this is debited as there is a reduction in equity. Contributed equity decreases by \$32 000 as 10 000 shares were repurchased and this is debited as there is a reduction in equity. //

*Handwritten notes:* which is credited in Bank as there is a decrease in the amount of money in the bank when the shares had to be repurchased.

- (c) On 1 September 2014, *Fashnz Limited* employed a share broker to manage offering the public 100 000 shares in the company at \$6 per share. On 1 October 2014, the share broker issued the 100 000 shares, and the net proceeds of the share issue were given to *Fashnz Limited*, after deducting 5% for brokerage fees.

Prepare the journal entry to record this transaction.

***Fashnz Limited***  
**General Journal**

1/10/2014	Bank	\$70 000	
	Contributed equity		\$70 000
	Net proceeds of share issue received from share broker		



- (d) On balance day, *Fashnz Limited's* accountants recorded the following general journal entry.

***Fashnz Limited***  
**General Journal**

31/3/2015	Income summary	140 000	
	Taxation payable		140 000

**Additional information**

- An interim dividend (2015) of \$73 500 was paid on 1 November 2014.
  - Profit before tax is \$510 000 for the year ended 31 March 2015.
  - An independent revaluation of *Fashnz Limited's* land was received on 31 March 2015 that determined a fair market value for land of \$900 000. The ledger account balance for land at 1 April is \$750 000 DR.
- (i) Complete the General Ledger – Retained Earnings account from 1 April 2014 to 31 March 2015, using the General Journal entry and additional information above, and other relevant information from (a), (b), and (c). The opening balance has been entered.

***Fashnz Limited***  
**General Ledger – Retained Earnings**

1/4/2014	Balance			230 000	CR
19/8/2014	Bank	18 000		212 000	CR
31/3/2015	Income summary		370 000	582 000	CR
	Final Dividend 2014	48 000		534 000	CR
	Interim Dividend 2015	73 500		460 500	CR

- (ii) Complete the Shareholders' equity section of the Statement of Financial Position (extract) as at 31 March 2015, using the additional information above, and other relevant information from (a), (b), and (c).

***Fashnz Limited***  
**Statement of Financial Position (extract) as at 31 March 2015**

Shareholders' equity	
Contributed equity	1 818 000
Land revaluation surplus	150 000
Retained earnings	460 500
Total equity	2 428 500

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The examination continues on the following page.

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## QUESTION TWO

Refer to **Resource A** in Resource Booklet 91406R.

- (a) Prepare Green's Green Waste Collection Limited Statement of Cash Flows for the year ended 31 March 2015 on the next page.

Note:

- The company did not undertake any investing activities during the year.
- Show your working, which may be marked.

## WORKING

Cash from customers

Opening accounts receivable	15 900
+ Sales	+ 240 000
- Bad debts	- 500
- Closing accounts receivable	12 900
	242 500

Rent received

+ Opening accrued income	1175
- Closing accrued income	- 600
	975

Tax paid

Opening taxation payable	1000
+ Tax expense	+ 0
- Closing taxation payable	- 0
	1000

Other expenses

+ Closing prepayment	+ 400
- Opening prepayment	- 800
	115 175

cash paid to suppliersPurchases

Cost of goods sold	120 000
+ Closing inventory	+ 60 000
- Opening inventory	- 59 000
	121 000

Accounts payable (cash paid to suppliers)

Opening accounts payable	+ 27 700
+ Purchases	+ 121 000
- Discount received	- 2000
- Closing accounts payable	- 32 400
	114 300

Share issueOpening con

Closing contributed equity	15 000
- Opening contributed equity	- 10 000
	5000

Loan increase

Mortgage increase	3100
- Opening MCL	- 0
	3100

Loan repayment

Closing MCL	0
- Opening MCL	- 200
	200

Dividends paid

Opening retained earnings	81 300
- Loss for the year	- 6000
- Closing retained earnings	- 56 300
	19 000

Green's Green Waste Collection Limited  
Statement of Cash Flows for the year ended 31 March 2015

	NZ\$000	NZ\$000	NZ\$000
Cash from operating activities			
Cash was provided from			
Cash from customers	242 500		
Rent received	975	243 475	
Cash was applied to			
Cash paid to suppliers	114 300		
Interest paid	4000		
Tax paid	1000		
Other expenses	115 175	(234 475)	
Net increase/decrease in cash flow for operating activities			9000
Cash from financing activities			
Cash was provided from			
Share issue	5000		
Mortgage increase	3100	8100	
Cash was applied to			
Loan repayment	200		
Dividends paid	19 000	(19 200)	
Net increase/decrease in cash flow from financing activities			(11 000)
Net increase/decrease in cash for the year			(2100)
Bank at the beginning of the year			3700
Bank balance at the end of the year			1600



- (b) Explain, with detailed reasons, the cash figure you have entered for Other expenses in Green's Green Waste Collection Limited's Statement of Cash Flows for the year ended 31 March 2015.

The value of other expenses in the Income Statement is \$11575000. To calculate the total amount of other expenses that is likely to be paid in cash, the opening prepayment and closing prepayment must be taken into account. The closing prepayment of \$400 000 must be added to the total value of other expenses which will be equal to \$115975000 as the closing prepayment is the <sup>amount of other</sup> ~~prepayment~~ expenses that will be paid for in the next accounting period. The opening prepayment of \$100 000 will be deducted to the sum of the value of other expenses and closing prepayment and will result in a total value of \$115175000 as this was the amount of prepayment that Green's Green Waste Collection had as a current asset but as the expenses have been used by the business, there needs to be deducted as it is no longer a current asset but an expense for the coming financial period. A value of \$115175000 of total expenses will appear as this is cash expense that the business has to pay for.

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## QUESTION THREE

Refer to **Resource B** in Resource Booklet 91406R.

- (a) Complete the Statement of Comprehensive Income for Antiques Online Limited for the year ended 31 March 2015. You are not required to prepare the Notes to this statement.

**Antiques Online Limited**  
**Statement of Comprehensive Income for the year ended 31 March 2015**

	NZ\$	NZ\$
Revenue		586 000
Other income		6500
Total income		592500
Less expenses		
Auditor's remuneration	3500	
Cost of sales	190000	
Directors fees	25000	
Electricity	7400	
Other expenses	44950	
Salaries	77000	
Depreciation	11820	
Doubtful Debts	(1160)	
Finance costs	10500	
Total expenses		(369010)
		<del>56400</del>
Profit before tax		223490
Income tax expense		69000
Profit for the year		154490
Other comprehensive income		
Gain on revaluation of land		65000
Gain on revaluation of buildings		36500
Other comprehensive income for the year		101500
Total comprehensive income for the year		255990

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- (b) The following totals were reported in *Antiques Online Limited's* financial statements after the additional information was taken into consideration:

• Current assets	\$133 760
• Current liabilities	\$26 275
• Non-current assets	\$485 080
• Non-current liabilities	\$150 000

The company declared a dividend of 5 cents per share from 2015 profits at the Annual General Meeting on 25 June 2015.

Explain, using the totals above, how the directors of *Antiques Online Limited* satisfied either the Liquidity Test OR the Balance Sheet Test requirement of the Solvency Test when making the dividend declaration.

The Balance sheet test states that the value of the assets of *Antiques Online Limited* must be greater than the value of its liabilities <sup>including contingent liabilities</sup> before and after the dividend is paid. The directors of *Antiques Online Limited* satisfied the Balance sheet test requirement because value of its assets \$618 840 is greater than its value of liabilities \$176 275, or \$442 565 greater in value before and after a dividend worth \$5000 is ~~paid~~ declared.

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Ex



Excellence exemplar for 91406 2015			Total score	23
Q	Grade score	Annotation		
1	E8	This is an E8 because it shows no errors in the processing and reporting. It also demonstrates comprehensive understanding in question 1 (b) by giving the effect of the transaction on both accounts and how both the Contributed Equity and Retained Earnings figures were calculated.		
2	E7	This is an E7 because it shows comprehensive understanding, with very little errors in the Statement of Cashflows. It also provides in-depth understanding with the expense calculation in question 2 (b), but needed to show that the 2015 \$400 prepayment was paid in the current year (2015).		
3	E8	This is an E8 because it shows no errors in the preparation of the Statement of Comprehensive Income. It also demonstrates comprehensive understanding in question 3 (b) because it provides context when explaining the balance sheet test, and links the test to the \$5000 dividend payout.		